

AUDIT SUMMARY

Our audit of the **Department of Professional and Occupational Regulation** for the year ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- proper recording and reporting of transactions, in all material respects, in the Department's accounting records relating to the Virginia Real Estate Transaction Recovery Act Fund and the Virginia Contractor's Transaction Recovery Act Fund;
- no material weaknesses in internal controls, but we did identify one matter that we consider a reportable condition; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

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March 11, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

AGENCY HIGHLIGHTS

The **Department of Professional and Occupational Regulation** regulates occupations and professions to protect the health, safety, and welfare of the public. The Department's responsibilities include certification, licensing, investigation, monitoring compliance, fee collection, record maintenance, and enforcement. Nineteen regulatory boards oversee the activities of the professions and occupations listed below. The Department provides centralized administrative, examination, and enforcement functions to the various Boards.

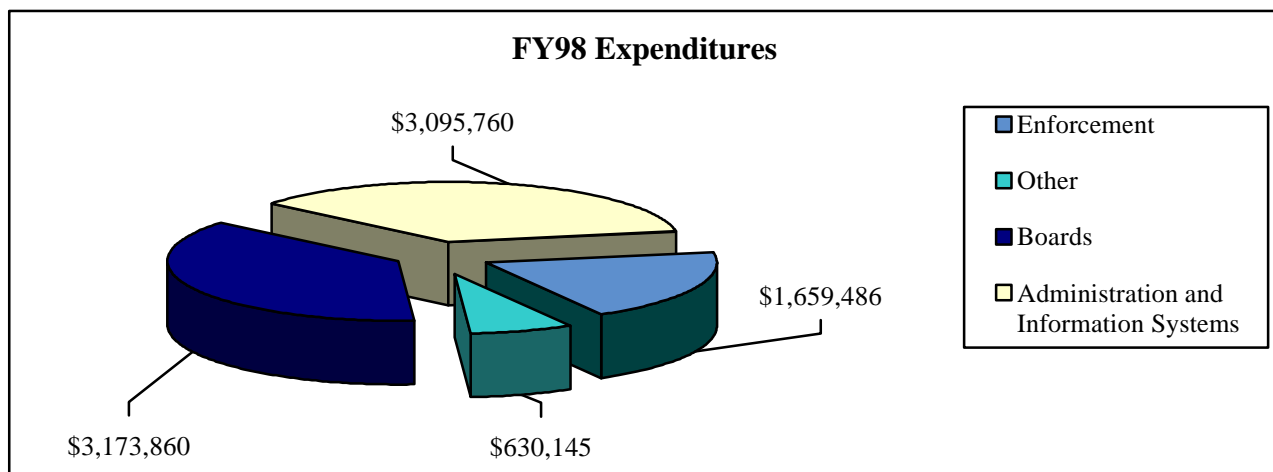
Accountancy	Hearing Aid Specialists
Architects	Land Surveyors
Asbestos and Lead	Nail Technicians
Auctioneers	Opticians
Barbers	Polygraph Examiners
Branch Pilots	Professional Boxing and Wrestling
Certified Interior Designers	Professional Engineers
Certified Landscape Architects	Professional Soil Scientists
Cemeteries	Real Estate
Contractors	Real Estate Appraisers
Cosmetology	Waste Management Facility Operators
Geology	Water Works and Wastewater Works Operators

Department Financial Highlights

Each regulatory board is self-supporting through the fees assessed regulants. Direct expenses are charged to the boards, while a percentage of the Department's administrative expenses are allocated to each board based on defined criteria, such as number of regulants. The Department records board financial activity in the special revenue fund on the Commonwealth Accounting and Reporting System (CARS), except for the activity of two trust funds. The Department also records federal grant activity in the special revenue fund. In June 1998, the agency began depositing all fines and penalties assessed regulants directly into the Literary Fund.

The following summarizes the Department's financial activity.

Revenues		
	<u>FY 98</u>	<u>FY 97</u>
General Fund	\$ 4,064	\$ 167,862
Special Revenue Funds	9,188,096	12,398,369
Literary Fund	<u>150,999</u>	<u>-</u>
Total	<u>\$9,343,159</u>	<u>\$12,566,231</u>



Payroll costs of \$4,919,796 accounted for 58% of total expenditures.

Trust Funds Financial Highlights

The Virginia Real Estate Transaction Recovery Act Fund and the Virginia Contractor Transaction Recovery Act Fund are accounted separately from CARS. These trust funds provide funds to pay claims against bankrupt licensees. During the biennium, the Contractor Trust Fund paid \$1,142,683 on 172 claims, and the Real Estate Trust Fund made 51 payments totaling \$418,068. Claims expenses are the majority of the trust fund expenditures.

Transfer Trust Fund Payment

During the year, the Department's system did not identify \$85,000 in certain types of payments for transfer to the Virginia Real Estate Transaction Recovery Act Fund. Included in this amount were cash and check walk-in payments and credit card payments. The Department has corrected the system problem and deposited the money in the Fund.

Information Systems

The Department developed a Year-2000 plan and is actively implementing the plan. Further, the Department is in the midst of a five-year plan to upgrade their information systems, including moving the Client Licensing and Enforcement System from a primarily main frame environment to a client server technology.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Professional and Occupational Regulation** for the year ended June 30, 1998. We conducted our audit in accordance Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, review the adequacy of the Department's internal control structure, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's policies and procedures were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal

control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Department's accounting records. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System, except for the information for the Recovery Trust Funds, which came from the Department's accounting records.

We noted a matter involving the internal control structure and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial records. This reportable condition, entitled "Transfer Trust Fund Payments," is discussed in the subsection titled "Trust Funds Financial Highlights." We believe the reportable condition is not a material weakness.

The results of our tests of compliance with applicable laws and regulations found no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

The Department has taken adequate corrective action with respect to all audit findings reported in the prior year.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 24, 1999.

AUDITOR OF PUBLIC ACCOUNTS

PBB:whb
whb:35

DEPARTMENT OF PROFESSIONAL AND OCCUPATIONAL REGULATION
Richmond, Virginia

BOARD MEMBERS

Morris A. Nunes, Chair

Delceno C. Miles, Vice Chair

Richard A. Campana	Barry Dorans
Susan T. Ferguson	Dona Huang
Raynard Jackson	David A. Johnson

Zack T. Perdue, Jr.

AGENCY OFFICIALS

Jack E. Kotvas, Director

Edmund A. Matricardi III, Chief Deputy

James L. Guffey, Enforcement

Steven L. Arthur, Administration and Finance